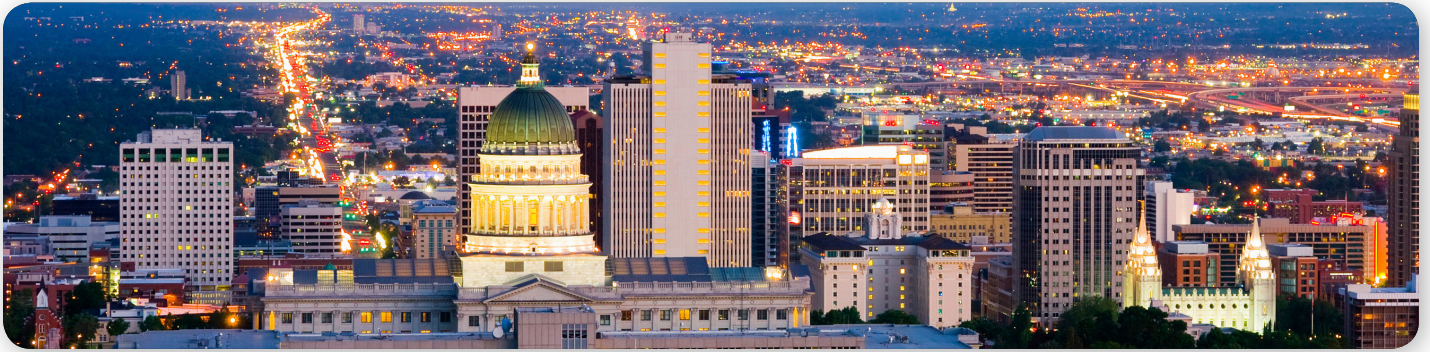


GOVERNOR'S BUDGET OVERVIEW



Setting Ambitious Targets and Focusing on the Goal

Utah leaders' long-term vision and focus on fundamental principles of fiscal prudence continues to pay dividends for the state and its citizens.

For example, in the depths of the Great Recession's doubt and uncertainty when Governor Herbert took office, he challenged the dismal status quo with his audacious vision that Utah would lead the nation as the best-performing economy and be recognized as a premier global business destination. While not every step was easy, Utah now has a nation-leading job growth rate of 33.5% since the end of the Great Recession, far outpacing the 26.3% growth rate of the closest competitor state. Utah's nation-leading private sector job growth is even higher over that same timeframe at 36.8%. Driven by the strong economy, the Census Bureau also now reports that Utah had the fastest population growth rate of any state over the past decade. Utah is now visible on the radar of national and global business decisionmakers and exciting future opportunities abound. And unlike some states depending on a single economic sector such as energy or tourism, Utah enjoys one of the most diverse economies in the United States. With this diversification, downturns in a single industry or sector do not extraordinarily impact the state's overall economy.

Another example of bold vision and fiscal prudence was Governor Herbert's challenge to cabinet agencies to

achieve a 25% improvement in performance. This goal was set as the state was coming out of the recession and after state government had experienced significant budget cuts. State employees responded to the call, achieving a 27% statewide improvement in performance by focusing on more clearly identifying goals through a standardized metric measuring the cost per quality outcome (QT/OE - Quality Throughput divided by Operating Expense) and aligning efforts and processes to achieve those goals. For example, as detailed in the Investing in What Works budget and policy brief, average wait times at the Driver License Division are now a short five minutes.

Notably, the State of Utah employed fewer full-time equivalent employees (FTE) in FY 2019 (20,700) than in FY 2002 (20,850), even with a very large population increase of nearly 900,000 over that same time period. Moreover, during the last decade, the number of Utah citizens supported by each state FTE has increased from 127 in FY 2009 to 155 in FY 2019. This means the state currently employs 4,500 fewer FTEs than would have been needed if it were not for gains in state workforce productivity, thereby generating greater value for every tax dollar invested through meaningful efficiencies from every agency.

To continually deliver the maximum value possible for Utah's citizens, the Governor has established an additional 25% improvement target for cabinet members. The Governor also calls for non-cabinet agencies to set and achieve similar ambitious performance targets.

Utah's strong economy, coupled with its focus on continually maximizing the benefit for every taxpayer dollar, allows for a sizable \$160 million tax cut as part of the tax modernization effort so that Utah citizens can receive a financial dividend on their hard work and ingenuity in making Utah's economy work. Under recently passed SB 2001, these tax reductions will begin flowing to Utah households in early 2020.

Even while lowering taxes, the State of Utah can continue adding to its strong education investments. In fact, while groups such as Prosperity 2020 (a partnership between Utah education officials and private businesses) called for a nearly \$850 million five-year funding plan for public education prior to the 2016 legislative session, Governor Herbert raised the bar and set a bold \$1 billion target for new ongoing funding over those same five years. To the Legislature's credit, they shared the Governor's vision for strong education investments and met the \$1 billion five-year ongoing funding target in just four years. For the coming budget year, the Governor again recommends strong investments in Utah's future workforce with a proposed \$290 million ongoing funding increase for public education, bringing the five-year total of new ongoing state-directed revenue for public education to over \$1.3 billion.

Since FY 2010 when the Governor took office, total state-directed funding will increase from \$2.6 billion to \$4.9 billion with his recommendation. These sizable increases represent a sizable commitment from both the Governor and Legislature to improve Utah's education outcomes and ensure Utah's citizens are prepared to contribute in the modern world. And the education investments are paying off, as evidenced by the increase in graduation rates from 76.0% to 87.4% and Utah's tied-for-top average composite score among the states that require more than 95% of students to take the ACT.

Continuing to Elevate Utah's High Quality of Life

Despite Utah's nation-leading economic performance over the past decade, it will fall behind if complacency sets in. To maintain momentum, Utah policymakers must commit to continued strategic investments in the state's high quality of life.

The Governor's budget recommendations focus on steps Utah must take today to continue its healthy economic growth and to enhance its high quality of life in the future. By using proven and fiscally sound approaches to delivering core services, this strategically focused budget aims to create the conditions for strong fundamental economic development while ensuring Utah remains a great place to live.

As detailed in various budget and policy briefs, the following four key strategic objectives are essential to Utah's long-term future:

- an equitable and competitive revenue system that couples a broad tax base with low and competitive tax rates and emphasizes user fees, particularly for infrastructure costs;
- an effective and efficient government that maximizes the benefit of every tax dollar invested;
- a qualified workforce that delivers the highly skilled labor demanded by modern businesses; and
- thriving communities with good air quality that provide access to a range of market-driven housing, employment, education, quality healthcare, and recreation options that maximize the benefits from limited physical and financial resources.

Budget Principles

Growth remains Utah's major challenge. Maintaining Utah's competitive edge and quality of life requires proactively managing multiple demands placed on limited taxpayer dollars. Utah's growing and changing population and new revenue stream dynamics create both challenges and opportunities in everything from education to air quality, physical infrastructure to natural resources, and in the state's correctional system.

An intentional and proactive focus on excelling at a limited number of high-value activities will yield better results than trying to do too many things, losing focus, and spreading limited resources too thin. A delayed, reactionary approach to new budget demands and changes within the economy as opposed to an intentional, proactive approach to budget design and strategy risk leaving Utah vulnerable to a diminished future prosperity. The Governor's budget

recommendations reflect strategic long-term investments of scarce taxpayer resources to best manage the state's many competing demands.

Five major principles guide the Governor's budget proposal:

- reduce the tax burden on Utah families with a \$160 million tax cut;
- strategically allocate revenue to investments that pay dividends not only for the coming year but for decades to come;
- optimize the conditions for a healthy and growing free market economy empowering the private sector to flourish;
- operate government efficiently while delivering high-quality outcomes for the people of Utah; and
- focus on the root cause(s) of an issue rather than the symptoms.

Budget Totals

The Governor's total recommended budget for FY 2020-21 (FY 2021) is \$20 billion, including state, federal, and certain local sources used in state funding formulas. The recommended budget funded by state-collected funds (i.e., excluding federal funds, local property tax for schools, and higher education tuition) totals about \$12.3 billion. The recommended budget for the General Fund and the Education Fund, the state's two largest discretionary accounts, total about \$8.3 billion.

Major categories of General Fund and Education Fund expenditures include public education (about \$4.1 billion), higher education (about \$1.5 billion), Medicaid and other social services (about \$1.2 billion), and corrections, public safety, and justice (about \$900 million). In addition, the transportation budget from state-collected funds totals about \$1.8 billion (including debt service payments for transportation projects); these expenditures are funded through various transportation funds outside the General Fund.

Budget Book Outline

Utah's budget can be viewed in many ways. The Governor's budget recommendation book is divided into two segments. The first segment explains, primarily with narrative, budget

and policy issues and proposed budget changes. The second segment provides additional technical details. Both can be found online at gomb.utah.gov.

Revenue Forecast

Utah's strong and growing economy continues to provide additional funds to both return a sizable portion (\$160 million) to Utah's taxpayers and to invest in Utah's long-term future as detailed below. This state government revenue growth reflects broad-based economic growth and prior fiscal prudence.

In November 2019, the Governor's Office of Management and Budget, the Office of the Legislative Fiscal Analyst, and the Utah State Tax Commission revised the state's FY 2020 revenue forecast and developed a new consensus revenue forecast for FY 2021 (see Table 1). The Governor's budget recommendations use this consensus revenue forecast, as adjusted for the tax changes adopted in SB 2001 of the 2019 Second Special Session of the Legislature.

Prior to SB 2001's tax changes, the consensus revenue estimate yielded about \$482 million in available ongoing and \$200 million in available one-time unrestricted General Fund and Education Fund revenues. Of the new ongoing revenues, \$440 million comes from the income-tax-supported Education Fund, with \$42 million from the sales-tax-supported General Fund. One-time revenues show a similar pattern, with a \$251 million increase in one-time Education Fund revenues offsetting a \$51 million one-time reduction in General Fund revenues. These estimates incorporate the impact of General Fund revenues coming in \$38 million below forecast in FY 2019, as well as a \$33.5 million Education Fund Budget Reserve Fund deposit, an \$80 million tax cut set-aside, allocations of earmarked revenues, and other technical adjustments.

Tax Modernization

SB 2001, recently signed by the Governor, enacted a number of tax changes that both reduce taxes overall (\$160 million ongoing) and begin to address the imbalance in the state's two major funds. First, the bill reduces income taxes for taxpayers across the income spectrum. While an income tax rate cut alone would largely benefit the high-income households who pay most of the income tax, SB

2001 creates tax credits specifically directed to benefit low- and middle-income Utahns. These tax cuts include a refundable grocery tax credit to offset adjusting the sales tax rate for groceries, a sizable personal exemption to offset the exemptions eliminated with federal tax reform, a Social Security tax credit, and an earned income tax credit that rewards work for those in intergenerational poverty. To mitigate timing concerns, the bill includes a “prebate” for the personal exemption and grocery tax credits.

SB 2001 also begins reducing the disproportionate taxpayer subsidy for roads by moving back toward the user-pays funding approach utilized for most of Utah’s history. In addition, the bill eliminates a number of sales tax exemptions and adds to the list of existing services included in the sales tax base. The bill also adjusts the existing sales tax rate on food to the sales tax rate on other items (which is offset with the grocery tax credit and other tax cuts previously mentioned). The net impact of these tax adjustments is estimated at a \$160 million ongoing tax cut.

While changing the state’s tax structure can be difficult, the state and its taxpayers are better positioned long-term by addressing fiscal imbalances in good times rather than ignoring the challenge and waiting for a future crisis to hit.

The Governor remains concerned about the lack of economic neutrality and fairness in the existing tax structure that does not broadly share the burden across all those who benefit from government services funded by sales tax. The Governor recognizes that tax modernization is an iterative process requiring continued evaluation as the economy adjusts over time and recommends a continued review of Utah’s tax structure to ensure all are paying their fair share and that Utah’s tax burden remains low and competitive.

Fundamental Prudent Fiscal Management

Funding the State’s Long-term Obligations

Utah is recognized nationally for its prudent fiscal management, including maintaining its AAA bond rating, which creates sizable interest savings relative to states with lower bond ratings. Utah is one of only 12 states with this rating from all three major rating agencies. The Governor recommends no new general obligation bond authorizations and further recommends reinstatement of the \$110 million

ongoing General Fund allocation to minimize bonding for the prison relocation.

As is always done in Utah, the Governor’s budget recommendation fully funds the state’s long-term obligations, including bond payments and actuarially estimated amounts for state employee retirement pension and other employee benefit programs.

Business Cycle Management and Maintaining Budget Flexibility

Budget stress testing conducted in 2019 demonstrates that the State of Utah has set aside meaningful formal and informal budget reserves to protect against various negative economic scenarios and also has various other tools available to manage the budget during an economic downturn. While any economic downturn would present challenges, the stress test review suggests that Utah remains well positioned for managing the budget over the business cycle.

Through sound budgeting practices, the state has prudently managed its resources. Rainy day fund balances exceed totals prior to the Great Recession, with almost \$893 million in the state’s various rainy day funds as of FY 2020, including the Education Fund Budget Reserve and Growth in Student Population (\$542 million), General Fund Budget Reserve (\$250 million), Medicaid Growth Reduction and Budget Stabilization (\$75 million), and Wildland Fire Suppression and Disaster Recovery (\$26 million) accounts. These balances represent about 11% of the FY 2020 General Fund and Education Fund budget.

By not authorizing any new bonds, the Governor’s budget further solidifies the state’s budget buffers. In addition to one-time rainy day funds, a total of \$635 million in ongoing structural budget surplus and “working rainy day funds” (cash-funded capital items such as facility renovation, capital development, transportation, and capital improvement projects) could be largely replaced by bonding for capital projects during a downturn if bonding capacity is not used up during strong times. With these solid budget reserves in place, legislators should feel confident in making strategic investments that enhance Utahns’ quality of life, including education.

One concerning budget practice in recent years has been the proliferation of General Fund earmarks. As detailed in the Revenue Earmarks budget and policy brief, this practice can create budget challenges. The Governor commends the Legislature for reducing sales tax earmarks in SB 2001 and directing the Department of Transportation to develop plans for road user fees that can then provide revenue to replace sales tax earmarks for transportation. To protect the General Fund from further erosion and ensure appropriate budget prioritization, the Governor encourages continued reductions in earmarks and discourages further earmarking of general revenues, including the further proliferation of automatic end-of-year surplus transfers.

With these prudent fiscal management practices and a tax cut in place, the Governor's budget proposes to use growing state revenues to strategically invest in Utah's people.

Education Investments

As in prior years, education remains Governor Herbert's number one budget priority. As the budget and policy briefs on Public Education Priorities and Postsecondary Education and a Qualified Workforce highlight, Utah must invest in its people to achieve long-term success. In the 21st century, a dynamic economy requires a skilled and educated population. Education drives innovation, attracts employers looking to fill high-skill jobs, and facilitates higher quality of life.

To provide resources for improving student outcomes, the Governor's budget begins with education, providing a \$407 million increase (\$357 million in new ongoing funds and \$50 million in one-time funds) for the state's public and higher education systems (see Table 2). This brings total public and higher education funding from all state-directed sources to about \$6.6 billion.

With these recommendations, the Governor's initial five-year goal of \$1 billion of new ongoing revenue for public education will have been surpassed (with a total of over \$1.3 billion of ongoing funding over five years), as will the \$275 million of new ongoing revenue for postsecondary education (with a total of \$370 million). The Governor commends the Legislature for significantly increasing its commitment to education funding in recent years. With these significant budget increases and strong continued investments

going forward, education entities must deliver continued improvements in student outcomes.

Public Education

The Governor recommends \$292 million in new public education funding support (\$290 million ongoing, nearly \$2 million one-time), bringing total public education funding from all state-directed sources to \$4.9 billion (up from \$2.6 billion when the Governor took office in FY 2010). Ongoing funding increases include \$219 million from new Education Fund revenue, \$65 million from growth in existing state-directed property taxes, and over \$6 million from the state's Permanent School Trust Fund.

In the fall of 2020, about 7,900 additional students are projected to enter the doors of Utah's schools. The budget funds this anticipated enrollment growth as traditionally defined, at a net Education Fund cost of \$17.6 million (\$12.9 million ongoing and \$4.7 million one-time from unspent balances). In addition, the Governor recommends that four additional programs receive enrollment growth funding (\$277,000) and the Schools for the Deaf and Blind receive their equivalent of enrollment growth funding (\$1.1 million).

Just as the Governor advocates for more state rights when it comes to federal government overreach, he also believes the state should respect the role of local officials in determining exactly how to carry out educational programs as long as policy goals for student outcomes are met. For this reason, the Governor's budget proposes to substantially increase locally controlled funding through a 4.5% (\$150 million) increase in the value of the weighted pupil unit (WPU). Such a sizable increase allows local school boards flexibility as they focus on needed local investments, including compensation and professional learning for educators. Teachers, principals, and other educators are key to achieving the Governor's goal of Utah being the top state for student achievement.

Additionally, the Governor recommends \$18.6 million in new ongoing funding to provide a WPU add-on for optional enhanced kindergarten expansion, \$4.3 million ongoing for local operational excellence staff, and \$5 million ongoing for an apprenticeship program specifically to benefit students in intergenerational poverty. The Governor's budget also includes new ongoing funds allocated under current law for charter schools, the Teacher and Student Success

Program, and the equity pupil unit (combined \$47.8 million), as well as reflecting the \$6.2 million in increased allocations from the Permanent School Trust Fund for allocation by school community councils. The Governor recommends an ambitious target for K-12 schools to offer at least three unique computer science classes in every middle school to help ensure the state develops the pipeline today that will meet industry demand. He recommends \$10.2 million for this purpose (\$8.7 million ongoing and \$1.5 million one-time). These sizable funding increases represent a strong effort to meaningfully increase ongoing resources for public education.

Meaningful accountability must accompany these major investments. Over time, improved student outcomes as measured on the state accountability dashboard must continue. Important benchmarks include elementary school reading proficiency levels, middle school math proficiency levels, graduation rates, and disadvantaged student outcomes. In addition, education agencies should continue to optimize resources and find measurable ways to provide more efficient and effective services.

The Governor also recommends that future governors receive the constitutional authority to appoint the State Board of Education so that the governor can both more directly influence student outcomes and be held accountable for achieving results in the largest state-funded program.

Postsecondary Education

Following up on the state's sizable funding increases in both technical colleges and the system of higher education in recent years, the Governor recommends targeted investments in areas demonstrating a measurable impact. The resources provided in recent years should facilitate significant performance improvements in the state's higher education system, including delivering a return on the state's investment in terms of higher and faster completion rates and a more affordable cost per quality outcome for families and taxpayers. Targeted investments together with compensation increases total \$67 million ongoing and \$48 million one-time.

The Governor's budget includes \$34.8 million ongoing to fund a 2.5% compensation increase and an estimated 4.53% percent health insurance increase for higher education

employees in the Utah System of Higher Education (USHE), Utah System of Technical Colleges (UTech), and Utah Education and Telehealth Network (UETN).

With rising tuition rates and growing enrollment in recent years, it is critical that postsecondary institutions tie increasing funding to improved student outcomes. Postsecondary institutions should focus intently on increasing efficiencies, with a goal of dramatically increasing the number of higher education graduates and the speed at which those students graduate with a lower overall cost per student. To this end, the Governor's budget targets higher education funding to specific investments intended to move the needle on student achievement.

Among the Governor's recommended postsecondary education funding increases are the following items targeted to specific programs and tied to specific student outcomes:

- \$12.7 million (\$11.7 million ongoing and \$1 million one-time) for technical education in both the USHE and UTech systems;
- \$3 million one-time for a proven Statewide Advising Corps to help counsel K-12 students on higher education options and increase higher education enrollment and completions, with the intent that this amount be funded ongoing in FY 2022 through efficiency gains from shared administrative services;
- \$15.8 million for performance funding tied with much more meaningful performance targets; and
- \$2.9 million for enrollment growth.

The Governor also recommends consolidating the governance of Utah's postsecondary institutions and a freeze on tuition increases until affordability metrics are defined.

Air Quality

In 2017, the Governor and the Utah Division of Air Quality set an ambitious goal to reduce annual statewide per capita emissions by 25% by 2026. Last year, the Legislature took a significant step toward advancing this goal by funding \$28.7 million for various air quality improvement efforts. As he did last year, the Governor recommends \$100 million to accelerate air quality improvement efforts. This year's air quality recommendation focuses on the transportation

system, including significant state investments in transit and in electric car infrastructure.

The Governor recommends a \$34 million transit budget increase by allowing access to Transportation Investment Fund monies through a one-time General Fund transfer in FY 2021 and an ongoing recommended change going forward. This funding should facilitate more expansive service and more frequent transit schedules during peak times, both of which are necessary to achieve more widespread ridership. As part of this recommendation, the Governor recommends that any transit agency receiving state funds provide free passes for state employees in the region and that the recipient transit agency ensure transit stops are available near major state facilities so both the public and state employees can easily use transit.

The Governor also recommends \$66 million for electric car infrastructure, including working with the private sector to significantly increase the number of DC fast charging stations throughout the state and to fund a \$3 million match for a Utah State University National Science Foundation grant that focuses on electric vehicle transportation infrastructure buildout, leading to Utah being a hub for electric vehicle research throughout the entire intermountain region.

Recognizing that most Utahns drive cars with internal combustion engines, the Governor also applauds the Marathon, Silver Eagle, and Chevron refineries for recently bringing to market Tier 3 fuels which can reduce harmful emissions by up to 80% when combined with a Tier 3 vehicle. Of the remaining four refineries, Andeavor (formerly Tesoro) and Sinclair have committed to produce Tier 3 fuel locally and anticipate having the fuel available in 2020. The Governor encourages the other two refineries to adopt Tier 3 fuel standards.

With Tier 3 fuels now publicly available at Speedway and Chevron gas stations and others coming on board in 2020, Utahns can improve air quality by simply choosing where they buy fuel. As Utahns choose to purchase cleaner fuels, fuel markets will respond to those choices.

Transportation, Open Space, and Land Use

As limited space along the Wasatch Front fills up, state and local policymakers must recognize the interrelationships

between air quality, land use, housing, transportation, water, and revenue structures. Affordable, thriving communities need physical infrastructure, including transportation and water infrastructure. However, different types of land use heavily influence the type of infrastructure needed, the cost of that infrastructure, and the mix and cost of housing. The true costs of different types of growth should be increasingly reflected in different market-driven land use choices. Those whose choices lead to greater infrastructure costs should increasingly bear the full costs of those decisions.

One key role the state can play is to work with local governments to maintain open space even as growth occurs. To this end, the Governor's budget includes \$40 million to create an endowment for open space and outdoor recreation infrastructure so that citizens receive a permanent benefit from prior investment in the Fund of Funds. Moreover, as the state develops its Point of the Mountain property, it should ensure that preserving appropriate open space is a key component of the plan.

As with all programs, the state's focus should be to maximize the return on every infrastructure dollar invested. This effort should include optimizing the use of existing infrastructure through demand management, multi-modal transportation investments, and increasingly incorporating the true costs of different development patterns into the decision-making process—including an increased reliance on user fees.

With limited space along the Wasatch Front rapidly filling up, transit must increasingly become a significant future state focus, with ongoing funding better aligned between roads and transit.

Social Service Programs and Support

Social service programs should be designed to elevate vulnerable populations to achieve sustainable outcomes, appropriate workforce participation, and self-sufficiency through efficient operational design and effective service delivery. Targeted investments in these programs help to meet these objectives.

As further detailed in the Social Service Program and Support budget and policy brief, the Governor's budget recommends a \$22.9 million ongoing General Fund increase for traditional Medicaid consensus items. In addition, the Governor's

budget includes nearly \$100 million in ongoing funding from the Medicaid Expansion Fund in FY 2021 to continue serving the coverage gap population and to support January 2020 implementation of the state's plan recently approved by the federal government.

The Governor's recommendation also includes \$30.5 million (\$21.8 million ongoing and \$8.7 million one-time) in new funding for significant investments in the state's mental health services system, including \$2.5 million ongoing for five new mobile crisis units to serve rural counties; \$11 million for a new behavioral health transition facility for inmates with mental illness who complete their prison sentence; \$10.4 million for a minimum of two urban no-refusal, short-term crisis receiving centers to properly treat people in crisis and divert caseload from jails and emergency rooms; \$4.9 million for a new 30-bed forensic unit in the state hospital to accommodate projected growth in referrals; \$500,000 for healthcare professional student loan repayment to increase the supply of mental health professionals in underserved areas; \$1 million in Medicaid behavioral health reimbursement rate increases; and \$1.3 million in ongoing funding for Operation Rio Grande Sober Living programs and mental health services.

For those with disabilities, the Governor recommends a \$9 million ongoing increase to support youth in state custody who are transitioning to Division of Services for People with Disabilities (DSPD) benefits, additional needs for current DSPD service recipients, employment programs for people with disabilities, and the restoration of ongoing funding for community waiver services. Nearly \$4.5 million ongoing is recommended to offer state plan services for 700 children and adults under a new limited services Medicaid waiver for people with disabilities. This waiver offers a limited array of services focused on supporting people with more narrow sets of needs who currently have little opportunity for having their needs met through the traditional DSPD waiting list process.

The Governor also recommends \$7 million ongoing to support various social service items such as local health department minimum performance standards, quality improvement incentives for intermediate care facilities, Medicaid reimbursement rate increases for autism services, and caseload increases in the Baby Watch program, among other items.

State Employee Compensation

The Governor's budget recommendation proposes a 2.5% cost of living increase for state employees as well as targeted funding to increase salaries for employees working in specific classifications with demonstrated needs. In addition, the budget funds the state share of health insurance and 401(k) match program cost increases.

Beyond these compensation items, the Governor recommends state budget savings of \$19 million in medical reserve day refunds from the Public Employees Health Program (PEHP) associated with effective cost containment practices, with employees receiving rebates of \$2.3 million. Moreover, the Governor recommends that PEHP continue to offer more plans designed to maximize employee choice between benefit levels and the option to convert the value of benefits to cash. Finally, similar to benefits offered by other large employers, the Governor recommends \$2 million ongoing for the state to provide a paid parental leave benefit to qualifying state employees following the birth of a child.

Summary

The Governor's budget is rational, reasonable, responsible, and responsive to the needs of Utahns. It invests in Utah's future by looking ahead to anticipated growth, new demands on services, and the opportunities that are possible if the state continues with bold vision and fiscal prudence.